



# Post-Retirement Reemployment Proposals and Costs

Presentation to the Retirement and Independent Entities Interim Committee

**June 12, 2023**



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# Key Term: “Working Retiree”

A retiree who returns to work for a participating employer, earning salary while continuing to receive a monthly retirement allowance URS.

This may be called:

- » Post-retirement reemployment
- » Return to work
- » Double dipping
- » Working retiree





# Return to Work Current Restrictions

- » Requires 1-year separation
  - › If return to work with a participating employer within 1 year, suspend retirement allowance
- » Exception
  - › May return to work after 60 days with limits (a bona fide termination, no employer provided benefits, salary limited during a calendar year (\$19,504.61 for 2023)\*)

\*1-year separation period begins after reemployment ends

# Working Retirees

If retirees are permitted to commence their monthly retirement benefit earlier and continue to participate in the workforce:

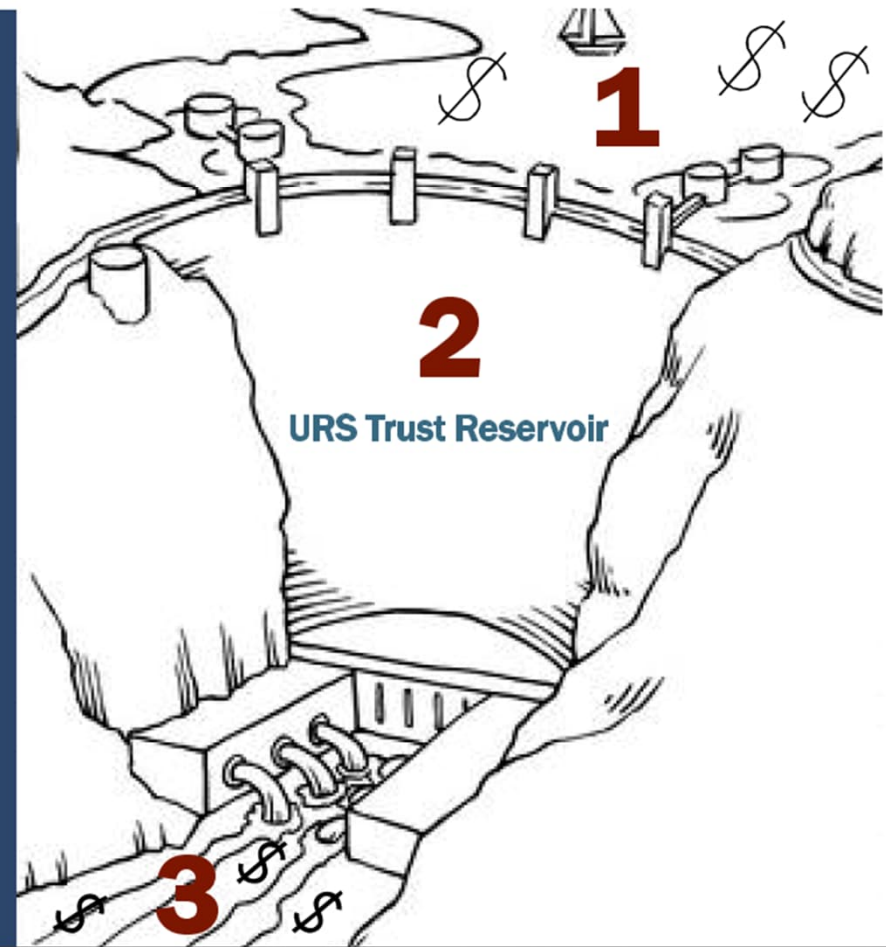
- » Members can increase personal income
- » Employers can recruit and utilize recent retirees
- » Costs are paid from the Retirement Funds resulting in increased contribution rates for members and all employers



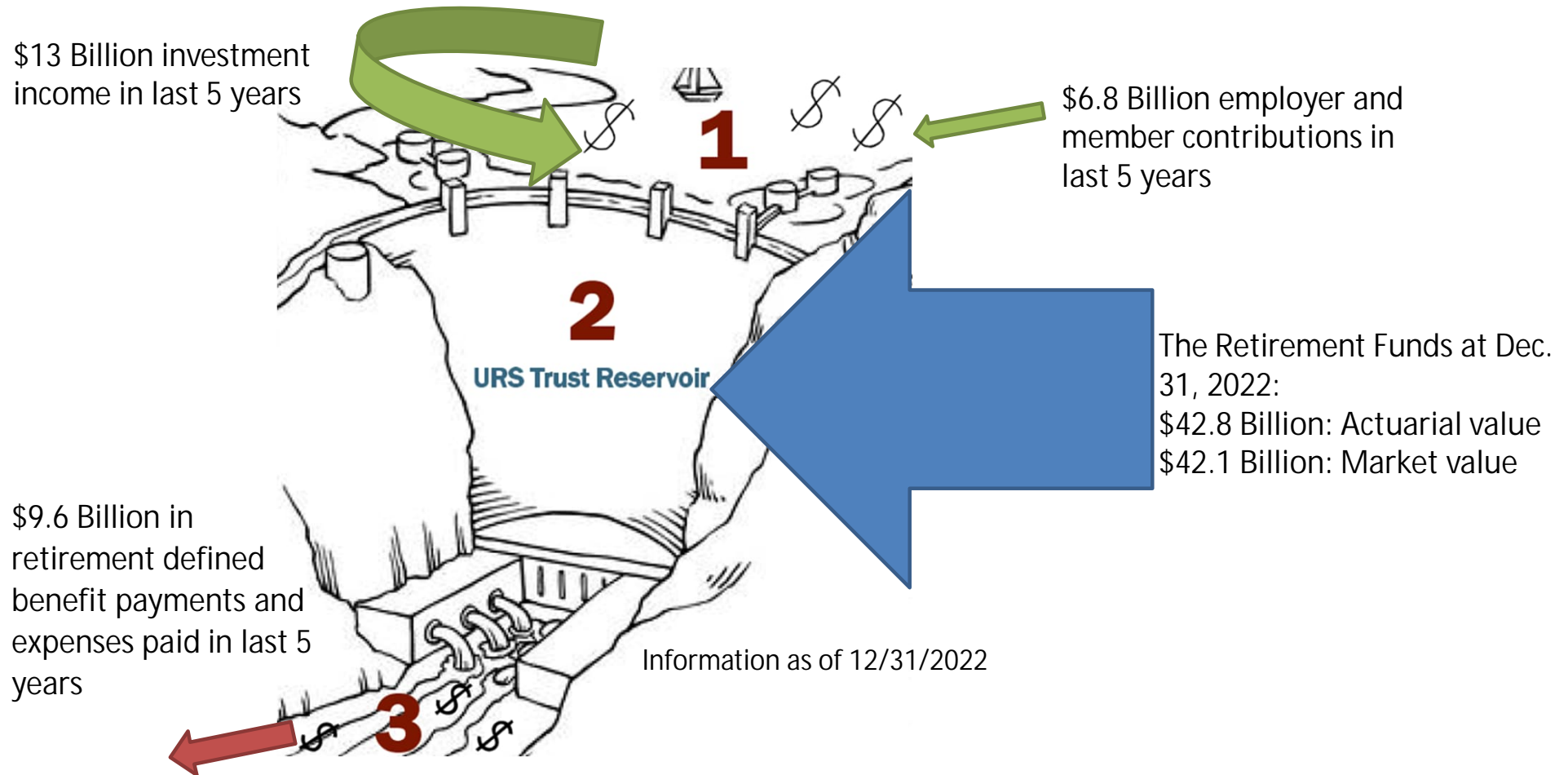
# Reservoir of Shared Funds for Members

1. Employer and employee contributions are deposited each pay period during working years; fund investment returns are also added
2. Funds are held in trust, professionally managed and invested
3. Funds are paid out monthly by formula during retirement years

*(For defined contribution plans, funds are placed in an employee's individual account when deposited.)*



# DB Trust “Reservoir” Analyzed



# Key System Information

State employee rates shown as of 12/31/2022

	Tier 1 Public Employee	Tier 1 Public Safety	Tier 1 Firefighter	Tier 2 Public Employee	Tier 2 Public Safety/Firefighter	All Systems
Active Members	45,690	3,918	1,289	43,105	5,326	99,328
Actuarial Accrued Liability	\$36.2 Billion	\$5.1 Billion	\$1.5 Billion	\$1.4 Billion	\$231.7 Million	\$44.5 Billion
Contribution Rates: Normal/Amortization* Total	12.25% / 9.94% 22.19%	22.89% / 18.46% 41.35%	** 18.66%	10.00% / 9.94% 20.02%	14%/2.59%+/ 18.46% 35.13%	-- --
2022 Contributions	\$990.3 Million	\$169.6 Million	\$48.5 Million	\$217.3 Million	\$51.7 Million	\$1.48 Billion
2022 Pension Benefits Paid	\$1.8 Billion	\$241.8 Million	\$71 Million	\$ 2.6 Million	\$42,000	\$2.07 Billion

\*Amortization of Tier 1 Unfunded Actuarial Accrued Liability (UAAL)

\*\*Net rate is 18.66%; 29.72% gross rate less 11.06% insurance premium offset

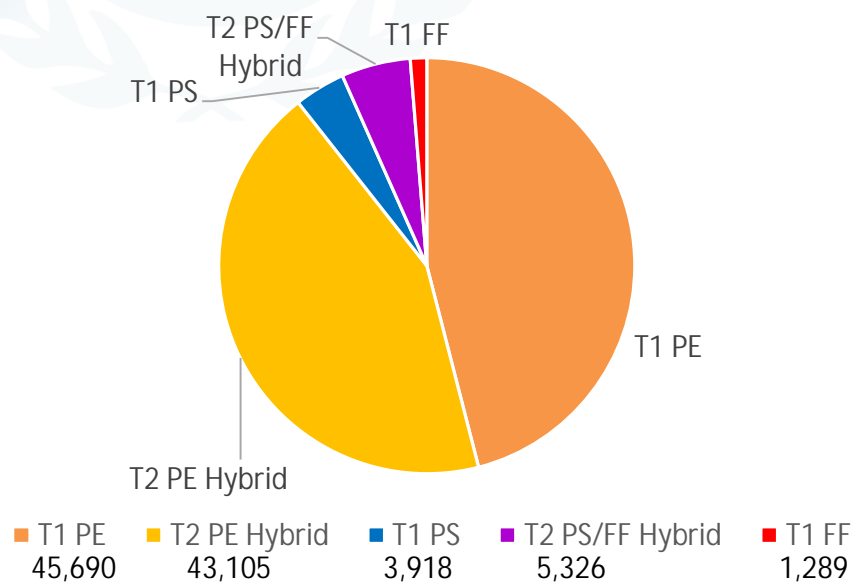
+Member required contributions



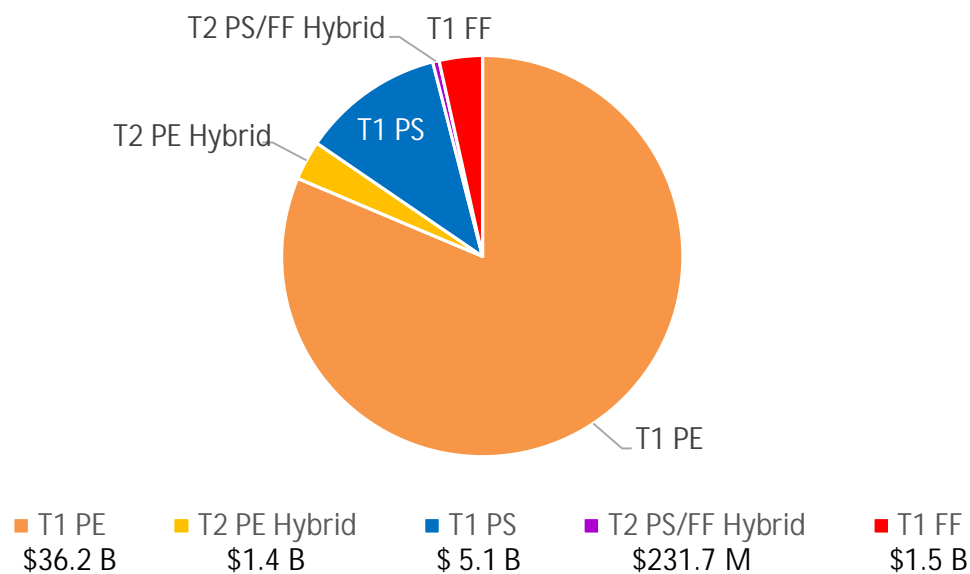
# Key System Information

As of 12/31/2022

Active Members



Actuarial Accrued Liability (AAL)







# Return to Work

## Possible Restriction Changes

- » Current statute requires 1-year separation
  - › If return to work with a participating employer within 1 year, suspend retirement allowance
  - › May cancel retirement allowance, return to work, and earn additional service credit
- » A potential new rule would reduce the 1-year break to 60 or 90 days after a bona fide termination



# Working Retiree Cost Principles

- » More expensive to permit or encourage members to begin retirement benefits at an earlier age and continue working
- » The financial impact of changes to provisions is based on changes in retirement behavior
- » Costs or savings are realized over a very long term and are hard to recognize unless specifically identified and analyzed



# Financing Increased Costs

1. **Traditional funding method:** Actuarially determined contribution rates increase for all participating employers (and certain Tier 2 employees)
2. **“User fee” approach:** Additional costs are only paid by working retirees’ employers/employees. This could be a single “surcharge” or a combination of funding mechanisms

# Plan Elements are Like Levers

Changing defined benefit system provisions may be like pulling one or more levers.



Changes may enhance benefits but may increase costs for employers and some members significantly (and usually ongoing).

# Return to Work Rule Change Cost Estimates

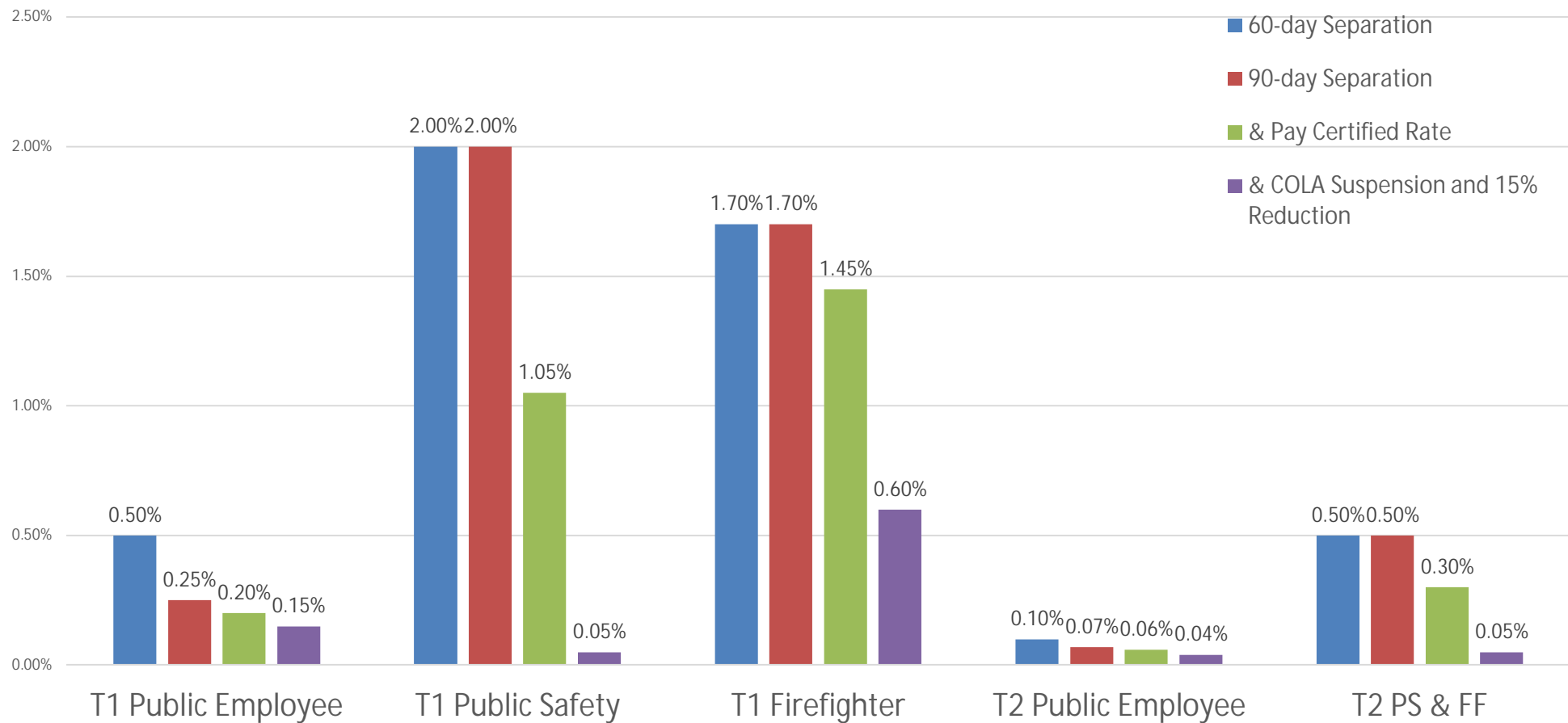
State employee rates shown as of 12/31/2022

Reducing Current One-year Required Break in Service to:	T1 Public Safety After 60-Day or 90-Day Break in Service	T1 Public Employees After 60-Day Break in Service	T1 Public Employees After 90-Day Break in Service	T1 All Systems After 60-Day Break in Service	T1 All Systems After 90-Day Break in Service
Current Actuarial Accrued Liability	\$5.1 Billion	\$36.2 Billion	\$36.2 Billion	\$44.5 Billion	\$44.5 Billion
2022 Contributions/ Contribution Rate	\$169.6 Million 41.35%	\$990.3 Million 22.19%	\$990.3 Million 22.19%	\$1.48 Billion --	\$1.48 Billion --
Increase in Contribution Dollars*/ Contribution Rate Increase	\$8.5 Million 2.00%	\$23.1 Million 0.50%	\$11.6 Million 0.25%	\$36.1 Million --	\$24.0 Million --
Cost offset if employer pays full certified contribution rate **/ Net increase / Net Contribution Rate Increase	<u>\$4.0 Million</u> \$4.5 Million <b>-0.95%</b> = 1.05%	<u>\$ 2.4 Million</u> \$20.7 Million <b>-0.05%</b> = 0.45%	<u>\$2.4 Million</u> \$9.2 Million <b>-0.05%</b> = 0.20%	<u>\$ 7.0 Million</u> \$29.1 Million --	<u>\$ 7.0 Million</u> \$17.0 Million --
Cost offset of working retiree COLA suspension and a 15% reduction in benefit during reemployment/ Net increase / Net Contribution Rate Increase	<u>\$4.3 Million</u> \$0.2 Million <b>-1.00%</b> = 0.05%	<u>\$ 2.3 Million</u> \$17.4 Million <b>-0.05%</b> = 0.40%	<u>\$2.3 Million</u> \$6.9 Million <b>-0.05%</b> = 0.15%	<u>\$ 8.2 Million</u> \$20.9 Million --	<u>\$8.2 Million</u> \$8.8 Million --

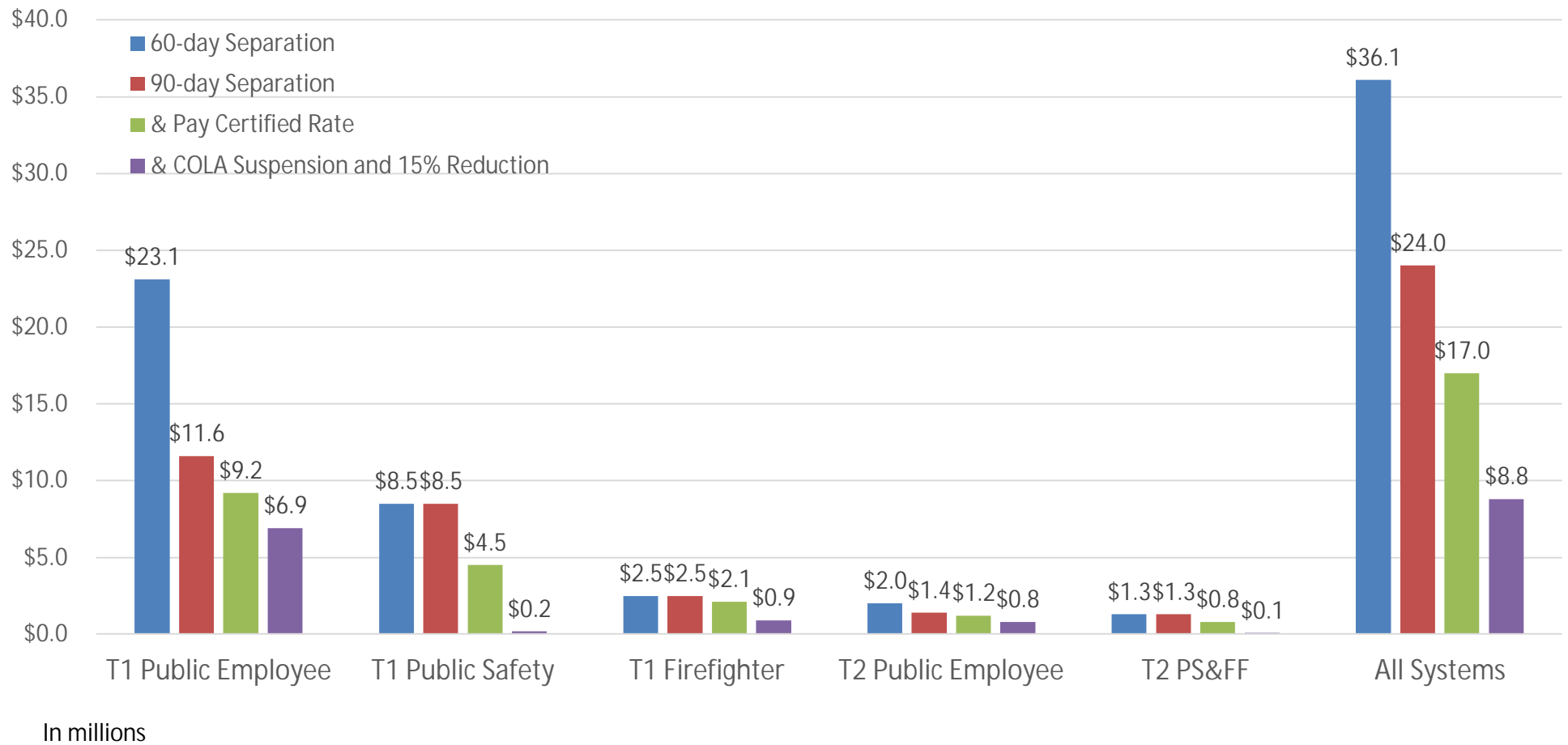
\*This already includes an offset for employers' required payment of Amortization of Tier 1 Unfunded Actuarial Accrued Liability (UAAL) on working retirees' pay (9.94% for public employees and 18.46% for public safety)

\*\*Employers would also pay the Normal Cost on working retirees' pay (12.25% for public employees [22.19% total] and 22.89% for public safety [41.35% total]), but no additional service credit earned

# Estimated Increase in Rates for Reemployed Retiree Provisions



## Estimated Increase and Change in Cost for Reemployed Retiree Provisions





# Working Retirees:

## 2022 average Public Safety retiree example:

Defined benefit:  $2.5\% \times \text{Final Average Salary} \times \text{years of service up to 20 years}$ ; plus  
 $2.0\% \times \text{Final Average Salary} \times \text{years of service over 20 years}$ .

### Return to work examples:

Full-time:           \$38,754 Retirement benefit  
  
                          +\$71,463 Salary (Return to work with same salary)  
  
                          \$110,217 Working retiree compensation (54% increase)

Half-time:           \$38,754 Retirement benefit  
  
                          +\$35,732 Salary (Return to work with same salary, half-time)  
  
                          \$74,486 Working retiree compensation (4% increase, working half-time)

The actuary adjusts retirement assumptions to reflect anticipated changes in retirement behavior, which results in benefit cost increases that must be funded.

Tier 1 Public Safety Retirement System	
2022 Retirees . . . . .	273
Average age . . . . .	53.5
Average years of service . . . . .	22.7
Final average annual salary . . . . .	\$71,463
Average annual benefit . . . . .	\$38,754

# Working Retirees: “User Fee” Financing

## State Public Safety retiree example:

Assume \$71,463 Salary (Return to work with same salary)

### Current:

\$38,754 Retirement benefit

**\$13,192** paid by State (Employer) = Amortization of Tier 1 UAAL on working retirees’ pay (18.46%), but no additional service credit earned

### Additional “User Fee” financing for required separation from service reduction to 60 or 90 days:

**\$5,813** left in Retirement Fund; \$32,914 Retirement benefit, which is reduced by 15% during reemployment

**\$1,550** Annual COLA (4%) eliminated during the reemployment period

**\$7,363** Member annual total

**\$16,357** Additional paid by State (Employer) = Normal Cost on working retiree’s pay (22.89%), but no additional service credit earned (\$29,549 Employer annual total)

0.05% of pay required contribution rate increase for all to finance the remaining unfunded costs



# Return to Work Change Cost Comparison

## All Retirement Systems:

- 2022 Total defined benefit retirement contributions = \$1.48 Billion
- Reducing the separation period = \$36.1 Million increase for a 60-day separation (\$24 Million for a 90-day separation)
- New total contributions for a 60-day separation = increase of 2.36% (1.79% for 90-day separation)
- If the total contributions are looked at as one gallon, the increase in system liability is about 1/3 of a U.S. cup (1/4 cup for 90-day separation)



# South Dakota Defined Benefits

Normal Retirement Age	Contributions	Benefit Formula Multiplier	Years for Final Average Salary	Retiree COLA	Working Retiree Rules
Combinations of age and years of service	All participating employers are required to contribute an amount equal to the members' contributions (6% of salary for public employees and 8% for Public Safety members)	Public employees (1.7% for service before 7/1/2008 and 1.55% for service after 7/1/2008); Public Safety (2.4% for service before 7/1/2008 and 2.0% for service after 7/1/2008)	Use the average of the 5 highest years salary	Variable cost-of-living adjustments (COLAs) for all retirees	3 months separation 15% reduction to retirement benefit COLA eliminated during reemployment Member contributions go to SPA and Employer contributions remain with systems

# Responsibilities

- » Plan design, policy, and benefit specifications for the defined benefit (DB) retirement systems are established in statute by the Legislature.
- » Retirement “rules” are policy and financial decisions for the Legislature, employers, and members.
- » URS is the retirement administrator and has the responsibility to inform stakeholders about the impacts of changes to retirement rules.
- » As the administrator, generally URS is neither for nor against current benefit provisions or proposed legislative changes in bills.

# Enacted Bills

## Making Substantive Changes to Post-Retirement Reemployment Rules

- 1989 H.B. 119, "Post-Retirement Employment"
- 1990 S.B. 78, "Post-Retirement Restrictions for Elected Officials"
- 1994 H.B. 155, "Retirement Office Amendments"
- 1995 H.B. 124, "Retirement Law Amendments"
- 1995 H.B. 107, "Postretirement Employment"
- 2000 H.B. 272, "Retirement Office Amendments"
- 2001 H.B. 36, "Retirement Office Amendments"
- 2002 H.B. 250, "Retirement Law Recodification"
- 2003 H.B. 246, "Retirement Office Amendments"
- 2004 H.B. 253, "Retirement Office Amendments"
- 2005 H.B. 180, "Retirement Office Amendments"
- 2007 H.B. 8, "Retirement Office Amendments"
- 2009 S.B. 127, "Retirement Amendments"
- 2010 S.B. 43, "Post-retirement Employment Amendments"
- 2011 S.B. 308, "Amendments to Public Employee's Benefit and Insurance Program"
- 2011 S.B. 127, "Post Retirement Employment Amendments"
- 2012 H.B. 256, "Retirement Modifications"
- 2013 H.B. 95, "Amortization Rate Contribution for Reemployed Retirees Revisions"
- 2014 S.B. 28, "Utah Retirement Amendments"
- 2014 S.B. 15, "Reemployment Restrictions Amendments"
- 2014 H.B. 126, "Retirement Amendments"
- 2015 H.B. 151, "Affiliated Emergency Service Worker Postretirement Employment Amendments"
- 2015 H.B. 12, "Utah Retirement System Amendments"
- 2016 H.B. 51, "Recodification of Postretirement Reemployment Provisions"
- 2020 S.B. 217, "State Retirement Amendments"

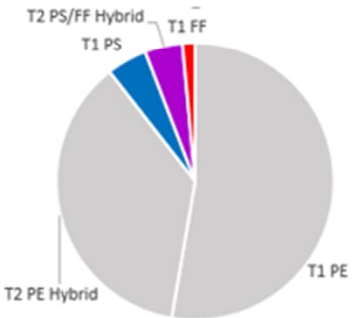


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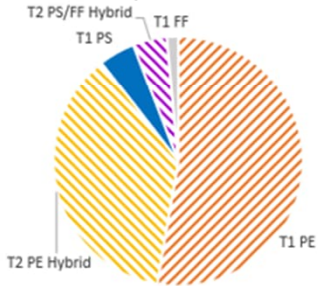
# Examples of Costs Associated with Post- Retirement Reemployment Legislation in Recent General Sessions



## 2023 H.B. 104, Modifications to Public Safety Retirement, Rep. Gwynn

Bill Title/ Brief Description	Affected Systems/ Employee Groups (Gray= system not affected; Hash= some members of system are eligible)	Fiscal Impact: <u>Increase in unfunded actuarial accrued liability (UAAL)</u>  <u>Change in funded status</u>	Fiscal Impact: <u>Increase in actuarially determined contribution rates</u>	Fiscal Impact: <u>Annual cost for Fiscal Year 2023-2024</u>
<p><b>Modifications to Public Safety Retirement</b></p> <p>Two separate retirement benefit changes, effective beginning on January 1, 2024:</p> <p>A) Tier 1 PS &amp; FF new exception to the Postretirement Reemployment Restrictions during a 42-month window (January 1, 2024, to June 30, 2027) where the required separation period for public safety and firefighter retirees would be reduced from one year to 90 <u>days</u>:</p> <p>B) Tier 2 PS/FF benefit enhancements:  1) Benefit multiplier increase from 2.00% to 2.27% for service earned after January 1, 2024; and 2) Retirement eligibility reduced from 25 years to 22 years of service.</p>	<p>Tier 1 &amp; Tier 2 Public Safety (PS) &amp; Firefighter (FF) Systems</p>  <p>T1 and T2 PS &amp; FF Systems' Actuarial Accrued Liability = \$6.57 Billion</p>	<p><u>\$47.89 Million</u></p> <p><b>Tier 1 PS &amp; FF Systems:</b> Range from -0.1% to -0.6%.</p> <p><b>Tier 2 PS &amp; FF Hybrid System:</b> -6.7%</p>	<p>Tier 1 PS System Funds: Increases ranging from 1.62% to 2.07% (only for four fiscal years)</p> <p>Tier 1 FF System Funds: Increases ranging from 1.06% to 1.76% (only for four fiscal years)</p> <p>Tier 2 PS &amp; FF Hybrid System: Member contribution rate increase of 4.73% (from 2.59% to 7.32%)</p>	<p><b>Increase of \$27.10 Million for all Systems:</b></p> <p><b>\$11.71 Million for Tier 1 PS &amp; FF Funds (only for four fiscal years)</b></p> <p><b>\$15.39 Million for the Tier 2 PS &amp; FF Hybrid System.</b>  <b>Note: Due to increasing Tier 2 covered payroll, the dollar cost will increase (e.g. \$29 Million in 2032; \$48 Million in 2042)</b></p>

## 2023 H.B. 125, Postretirement Reemployment Amendments, Rep. Birkeland

Affected Systems/ Employee Groups (Gray= system not affected; Hash= some members of system are eligible)	Fiscal Impact: Increase in unfunded actuarial accrued liability (UAAL)  Change in funded status	Fiscal Impact: Increase in actuarially determined contribution rates	Fiscal Impact: Annual cost for Fiscal Year 2023-2024
<p>All T1 PS &amp; Portions of T2 PS &amp; Public Employees' (PE) Systems</p>  <p><i>Note: For T2 PS/FF, only PS members are eligible for the new exception. For T1 &amp; T2 PE, only teachers are eligible.</i></p> <p>Tier 1 Systems' Actuarial Accrued Liability (except FF) = \$39.75 Billion</p> <p>Tier 2 Systems' Actuarial Accrued Liability = \$1.29 Billion</p>	<p><b>\$46.65 Million</b></p> <p><b>Tier 1 PE Systems:</b> Range from 0.00% to -0.10%.</p> <p><b>Tier 1 PS:</b> Range from -.10% to -.40%.</p> <p><b>Tier 2 PE Hybrid System:</b> -.10%</p> <p><b>Tier 2 PS &amp; FF Hybrid System:</b> - .70%</p>	<p>Tier 1 PE: Increases ranging from 0.00% to 0.07%</p> <p>Tier 1 PS: Increases ranging from 0.53% to 0.79%</p> <p>Tier 2 PE Hybrid System: 0.01%</p> <p>Tier 2 PS &amp; FF Hybrid System: 0.13% (Member required contributions increase)</p>	<p><b>\$5.59 Million for all affected Systems (From \$1.054 to \$1.060 Billion)</b></p>

This bill would create a new exception allowing a retiree who was, at the time of retirement, only a public safety service employee or a teacher to be reemployed with a participating employer within the one-year separation period if the retiree is not reemployed for at least 60 days after the retirement date, does not receive any employer paid benefits, and is reemployed as a:

- A teacher who teaches less than half time during a school year;
- A firefighter service employee who works fewer than 1,040 hours of regularly scheduled firefighter service per year;
- A public safety service employee who works fewer than 1,040 hours of regularly scheduled public safety service per year; or
- As an employee in any other position who works fewer than 20 hours per week.

## 2023 H.B. 126, Postretirement Reemployment Modifications, Rep. Birkeland

Affected Systems/ Employee Groups (Gray= system not affected; Hash= some members of system are eligible)	Fiscal Impact: Increase in unfunded actuarial accrued liability (UAAL)	Fiscal Impact: Increase in actuarially determined contribution rates	Fiscal Impact: Annual cost for Fiscal Year 2023-2024
	Change in funded status		
<p>All T1 PS &amp; Portions of T2 PS &amp; Public Employees' (PE) Systems</p> <p>Note: For T2 PS/FF, only PS members are eligible for the new exception. For T1 &amp; T2 PE, only teachers are eligible.</p> <p>Tier 1 Systems' Actuarial Accrued Liability (except FF) = \$39.75 Billion</p> <p>Tier 2 Systems' Actuarial Accrued Liability = \$1.29 Billion</p>	<p><b>\$72.75 Million</b></p> <p><b>Tier 1 PE Systems: Range from 0.00% to -0.20%.</b></p> <p><b>Tier 1 PS: Range from -0.10% to -0.70%.</b></p> <p><b>Tier 2 PE Hybrid System: -0.10%</b></p> <p><b>Tier 2 PS &amp; FF Hybrid System: -1.0%</b></p>	<p>Tier 1 PE: Increases ranging from 0.00% to 0.12%</p> <p>Tier 1 PS: Increases ranging from 0.82% to 1.19%</p> <p>Tier 2 PE Hybrid System: 0.02%</p> <p>Tier 2 PS &amp; FF Hybrid System: 0.21% (Member required contributions increase)</p>	<p><b>\$9.24 Million for all affected Systems (From \$1.05 to \$1.06 Billion)</b></p>

This bill would create a new exception allowing a retiree who was, at the time of retirement, only a public safety service employee or a teacher to be reemployed with a participating employer within the one-year separation period if the retiree does not earn more than \$35,000 per year. Earnings limitations are adjusted annually for inflation.

## 2022 1st Substitute H.B. 12, Public Safety Retirement Amendments, Rep. Gwynn

### Summary of Fiscal Impact

If enacted, 1<sup>st</sup> Substitute H.B. 12, Public Safety Retirement Amendments, has the following fiscal impact on URS and affected participating employers and members:

<b>Increase in unfunded actuarial accrued liability (UAAL):</b>	<b>Increase in annual cost for affected participating employers and members for Fiscal Year 2022-2023:</b>	<b>Increase in actuarially determined contribution rates:</b>
\$33.33 Million	<p>\$10.44 Million for all Tier 1 Public Safety and Firefighter funds.</p> <p>Note: The increase in annual cost (and contribution rates) due to this bill will only be for four fiscal years.</p>	<p>See Exhibits for detailed information about the contribution rate increases, but ranges are:</p> <ul style="list-style-type: none"><li>• Tier 1 Public Safety System Funds: Increases ranging from 1.18% to 2.10%</li><li>• Tier 1 Firefighters' Retirement System Funds: Increases ranging from 1.24% to 0.64%</li></ul>

This bill amends Utah Code Title 49, Chapter 11, Part 12, the Postretirement Reemployment Restrictions Act. This new exception would provide a 42-month window (i.e., January 1, 2023, to June 30, 2026) where the required separation period for Tier 1 and Tier 2 public safety and firefighter retirees would be reduced from one year to 60 days to seek reemployment and continue their monthly retirement allowance uninterrupted. Current Utah law requires URS to suspend the retirement allowance for members who become reemployed within one year of their initial date of retirement unless the member's postretirement reemployment qualifies for one of the exceptions provided in the statutes.

## 2022 H.B. 12, Public Safety Retirement Amendments, Rep. Gwynn

### Summary of Fiscal Impact

If enacted, H.B. 12, Public Safety Retirement Amendments, has the following fiscal impact on URS, affected participating employers, and Public Safety and Firefighter Tier 2 members:

<b>Increase in unfunded actuarial accrued liability (UAAL):</b>	<b>Increase in annual cost for affected participating employers and Tier 2 Members for Fiscal Year 2022-2023:</b>	<b>Increase in actuarially determined contribution rates:</b>
\$162.44 Million	\$41.93 Million for all funds, with \$32.09 Million of that increase occurring in the Tier 2 Public Safety and Firefighter System	See Exhibits for detailed information about the contribution rate increases, but ranges are: <ul style="list-style-type: none"><li>• Tier 1 Public Safety System Funds: Increases ranging from 1.85% to 2.41%</li><li>• Tier 1 Firefighters' Retirement System Funds: Increases ranging from 1.19% to 1.60%</li><li>• Tier 2 Public Safety and Firefighter System: Member contribution rate increase of 11.15%</li></ul>

This legislation would enact four distinct retirement benefit changes for public safety and firefighter retirement benefits, effective beginning on January 1, 2023:

1. New Exception to the Postretirement Reemployment Restrictions
2. Reduction in years required for Tier 2 Public Safety and Firefighter Retirement
3. Increase in Benefit Multiplier for Tier 2 Public Safety and Firefighter Hybrid System
4. Increase in the Benefit Multiplier Effective for All Member's Service

# Questions?

URS is willing to discuss questions or provide additional information, whether related to this presentation or about other retirement-related issues.

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